

Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Accountants' Report and Financial Statements

December 31, 2007



Good Samaritan Hospital
A Component Unit of Knox County, Indiana
December 31, 2007 and 2006

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Good Samaritan Hospital
Vincennes, Indiana

We have audited the accompanying balance sheet of Good Samaritan Hospital (Hospital), a component unit of Knox County, Indiana, as of December 31, 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Good Samaritan Hospital as of December 31, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12, in 2007, the Hospital changed its method of accounting for payments from the Indiana Medicaid Disproportionate Share Hospital Program and their methodology of estimating incurred but not reported health insurance claims by retroactively restating prior years' financial statements.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

May 27, 2008

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Management's Discussion and Analysis
December 31, 2007 and 2006

Introduction

This management's discussion and analysis of the financial performance of Good Samaritan Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2007 and 2006. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2007 by \$4,784,445 or 6%.
- The Hospital reported operating income in 2007 of \$4,761,896. The operating income in 2007 decreased by \$2,419,472 or 33.7% over the operating income reported in 2006.
- Net nonoperating revenues decreased by \$873,892 or 14% in 2007 compared to 2006.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$9,975,895 (7.4%) in 2007 over 2006 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006 (Restated)
Assets		
Patient accounts receivable, net	\$ 19,282,743	\$ 21,586,739
Other current assets	70,921,344	71,877,903
Capital assets, net	83,268,207	73,394,891
Other noncurrent assets	18,951,237	18,269,456
Total assets	<u>\$ 192,423,531 ✓</u>	<u>\$ 185,128,989</u>
Liabilities		
Long-term debt	\$ 35,026,999	\$ 37,958,221
Other current and long-term liabilities	12,072,352	11,822,483
Total liabilities	<u>47,099,351 ✓</u>	<u>49,780,704</u>
Net Assets		
Invested in capital assets, net of related debt	48,241,208	35,436,670
Restricted expendable	2,358,189	2,227,700
Unrestricted	94,724,783	97,683,915
Total net assets	<u>145,324,180 ✓</u>	<u>135,348,285</u>
Total liabilities and net assets	<u>\$ 192,423,531 ✓</u>	<u>\$ 185,128,989</u>

A significant change in the Hospital's assets in 2007 is the decrease in patient accounts receivable. Although net patient service revenues increased in 2007 by \$8,806,258 (7%) as compared to 2006, net patient accounts receivable decreased by \$2,303,996 (10.7%) or 7.2 days of revenue at December 31, 2007 versus December 31, 2006. The decrease results primarily from improvements in filing claims with third-party payers caused by implementation of new billing software during the third quarter of 2007.

The most significant change in the Hospital's financial position in 2007 was the increase in capital assets and related capital lease obligations for the acquisition of new equipment, as discussed in the *Capital Assets* section below.

Operating Results and Changes in the Hospital's Net Assets

In 2007, the Hospital's net assets increased by \$9,975,895 or 7.4%, as shown in Table 2. This increase is made up of several different components and represents a decline of 24.8% compared with the increase in net assets for 2006 of \$13,269,259.

Table 2: Operating Results and Changes in Net Assets

	2007	2006 (Restated)
Operating Revenue		
Net patient service revenue	\$ 134,628,985	\$ 125,822,727
Other operating revenue	1,873,096	2,042,081
Total operating revenue	<u>136,502,081</u>	<u>127,864,808</u>
Operating Expenses		
Salaries and wages and employee benefits	75,378,430	67,906,354
Purchased services and professional fees	19,985,328	18,792,919
Depreciation and amortization	9,100,216	8,443,746
Other operating expenses	27,276,211	25,540,421
Total operating expenses	<u>131,740,185</u>	<u>120,683,440</u>
Operating Income	<u>4,761,896</u>	<u>7,181,368</u>
Nonoperating Revenue (Expenses)		
Investment income	4,837,992	5,749,413
Contributions, net of program expenses	1,785,359	2,035,919
Interest expense	(1,409,352)	(1,697,441)
Total nonoperating revenue	<u>5,213,999</u>	<u>6,087,891</u>
Increase in Net Assets	<u>\$ 9,975,895</u>	<u>\$ 13,269,259</u>

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported operating income. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Knox County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating income for 2007 decreased by \$2,419,472 or 33.7% as compared to 2006. The primary components of the decreased operating income are:

- An increase in salaries, benefits and wages for the Hospital's employees of \$7,472,076 or 11.0%.
- An increase in pharmacy supplies and drug costs of \$1,665,615 or 7.6%.
- An increase in purchased services and professional fees of \$1,192,409 or 6.3%.
- These increases were partially offset by an increase in net patient service revenue of \$8,806,258 or 7.0%.

Net patient service revenue increased because of an increase in ancillary visits of 3,521 from 2006 to 2007. This increase resulted primarily from these increased visits along with rate increases to cover anticipated expense increases for 2007.

Employee salaries and wages and benefits increased in 2007 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of physicians, nurses and other health care professionals in the United States. Also, the Hospital recruited a surgeon who began employment in late 2007 to replace a surgeon who is retiring in the first half of 2008.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2006, medical supplies and prescription drug costs totaled \$21,904,525 or 18.2% of total operating expenses. In 2007, they totaled \$23,570,140 or 17.9% of total operating expenses, an increase of \$1,665,615 or 7.6% over 2006. Some of the major factors contributing to the increased medical supply and drug costs include an aging population, the introduction of new drugs that cannot be obtained in generic form, changes in therapeutic mix and pharmaceutical marketing.

The increase in net patient service revenue of \$8,806,258 was offset by increases in employee salaries and wages and increases in supply and drug costs as discussed above. The Hospital was able to hold the increase in other operating expenses to approximately 6.8%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment contribution and grant income along with interest expense, all of which remained relatively constant in 2007 as compared to 2006, except investment income. The Hospital recognized a decrease in its investment return in 2007 compared to 2006, resulting primarily from less favorable earnings on equity funds held.

Capital Grants and Gifts

The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. Capital grants received declined substantially from \$1,886,914 in 2006 to \$1,158,385 in 2007 due to the state's fiscal/budgetary issues.

The Hospital received gifts of \$626,974 from a foundation and various individuals to purchase capital assets in 2007, an increase of \$477,969 or 32.1% from 2006. Substantially all of these gifts have been expended and are reflected in unrestricted net assets as of December 31, 2007.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2007 and 2006, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the Hospital had \$83,268,207 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2007, the Hospital purchased new capital assets costing \$18,817,769.

In August 2006, the Hospital's Board of Trustees approved a resolution designating \$9,500,000 of its unrestricted net assets for future expansion of the Hospital and the addition of a cancer pavilion.

The Board approved the completion of the emergency room and data center expansion, which were completed in 2007. The cancer pavilion opens in the spring of 2008.

Debt

At December 31, 2007, the Hospital had \$35,026,999 in revenue bonds, notes payable and capital lease obligations outstanding. Except for new capital leases of \$279,883 and \$458,857 initiated in 2007 and 2006, respectively, the Hospital issued no new debt in 2007 or 2006. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Hospital's debt ratings in the past three years. The ratings have remained positive in the range of A to AA during this period of time.

Other Economic Factors

A large employer in the Hospital's geographic area, the Essex Wire Company, has a number of operating plants throughout the world. In late 2007, Essex announced that it would close its plant in Vincennes and move the majority of that plant's operations (including up to 200 full-time employees) to its other plants. Work on that move began in early 2007 with completion scheduled for late 2008. Subsequently, Golden Rule Insurance announced a major expansion in Vincennes, which would increase their workforce by 200 positions. Duke Energy will build a two billion dollar coal gasification plant, which will create 1,000 jobs over the next 3 years and 100 full time jobs at time of completion. Vectren Fuels will open two coal mines in Knox County, which will create over 400 jobs that will also boost the local economy.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's CFO by telephoning (812) 885-3891.

Good Samaritan Hospital

A Component Unit of Knox County, Indiana

Balance Sheet December 31, 2007

Assets

	<u>2007</u>	
Current Assets		
Cash and cash equivalents	\$ 26,055,988	
Short-term investments	30,389,336	
Restricted cash - current	2,358,189	
Patient accounts receivable, net of allowance \$6,100,000	19,282,743	
Other receivables	1,264,573	
Estimated amounts due from third-party payors	6,924,214	
Supplies	1,001,592	
Prepaid expenses and other	<u>2,927,452</u>	
Total current assets		\$ 90,204,087
Noncurrent Cash and Investments		
Held by trustee for debt service	2,358,189	
Internally designated	11,754,470	
Less amounts required to meet current obligations	<u>(2,358,189)</u>	
	11,754,470	
Other long-term investments	<u>5,666,911</u>	
		17,421,381
Capital Assets, net		83,268,207
Other Assets		
Deferred financing costs	1,086,009	
Other	<u>443,847</u>	
		<u>1,529,856</u>
Total assets		<u>\$ 192,423,531</u>

Liabilities and Net Assets

Current Liabilities		
Current maturities of long-term debt	\$ 2,734,756	
Accounts payable	3,044,653	
Accrued expenses	7,703,969	
Estimated self-insurance costs	<u>1,323,730</u>	
Total current liabilities		\$ 14,807,108
Long-Term Debt		<u>32,292,243</u>
Total liabilities		47,099,351
Net Assets		
Invested in capital assets, net of related debt	48,241,208	
Restricted - expendable for debt service	2,358,189	
Unrestricted	<u>94,724,783</u>	
Total net assets		<u>145,324,180</u>
Total liabilities and net assets		<u>\$ 192,423,531</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2007

	<u>2007</u>	
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; \$8,146,580	\$ 134,628,985	
Other	<u>1,873,096</u>	
Total operating revenue		\$ 136,502,081
Operating Expenses		
Salaries and wages	55,460,755	
Employee benefits	19,917,675	
Purchased services and professional fees	19,985,328	
Supplies	23,570,140	
Other expenses	3,706,071	
Depreciation and amortization	<u>9,100,216</u>	
Total operating expenses		<u>131,740,185</u>
Operating Income		4,761,896
Nonoperating Revenue (Expense)		
Investment income	4,837,992	
Interest expense	(1,409,352)	
Noncapital contribution and grant income	<u>1,785,359</u>	
Total nonoperating revenue		<u>5,213,999</u>
Excess of Revenues Over Expenses and Change in Net Assets		9,975,895
Net Assets, Beginning of Year, as previously reported	128,348,285	
Adjustments applicable to prior years	<u>7,000,000</u>	
Net Assets, Beginning of Year, as restated		<u>135,348,285</u>
Net Assets, End of Year		<u><u>\$ 145,324,180</u></u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statement of Cash Flows
Year Ended December 31, 2007

	<u>2007</u>	
Operating Activities		
Receipts from and on behalf of patients	\$ 134,923,916	
Payments to suppliers and contractors	(46,178,707)	
Payments to employees	(75,717,909)	
Other receipts	<u>1,873,096</u>	
Net cash provided by operating activities		\$ 14,900,396
Noncapital Financing Activity - grants and gifts		1,785,359
Capital and Related Financing Activities		
Principal paid on long-term obligations	(3,211,105)	
Interest paid on long-term obligations	(1,402,127)	
Purchase of capital assets	<u>(16,945,587)</u>	
Net cash used in capital and related financing activities		(21,558,819)
Investing Activities		
Investment income	4,779,115	
Proceeds from disposition of investments	7,528,923	
Purchase of investments	<u>(1,276,626)</u>	
Net cash provided by investing activities		<u>11,031,412</u>
Increase in Cash and Cash Equivalents		6,158,348
Cash and Cash Equivalents, Beginning of Year		<u>19,897,640</u>
Cash and Cash Equivalents, End of Year		<u>\$ 26,055,988</u>
Reconciliation of Net Operating Revenue (Expenses) to Net Cash		
Provided by Operating Activities		
Operating income	\$ 4,761,896	
Depreciation and amortization	9,100,216	
Provision for uncollectible accounts	8,146,580	
Changes in operating assets and liabilities		
Patient accounts receivable	(5,842,584)	
Supplies	46,082	
Prepaid expenses and other assets	(907,925)	
Estimated amounts due from third-party payers	(2,009,065)	
Accounts payable and accrued expenses	<u>1,605,196</u>	
Net cash provided by operating activities		<u>\$ 14,900,396</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets		\$ 279,883
Capital asset acquisitions included in accounts payable		1,592,299

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Good Samaritan Hospital (Hospital) is an acute care hospital located in Vincennes, Indiana. The Hospital is a component unit of Knox County, Indiana (County) and the Board of County Commissioners appoints members to the Board of Directors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Knox County area.

The Good Samaritan Hospital Foundation (Foundation) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions, principally federal and state grants, are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Good Samaritan Hospital

A Component Unit of Knox County, Indiana

Notes to Financial Statements

December 31, 2007

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2007, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the two preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U. S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method (FIFO) or market.

Good Samaritan Hospital
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Notes to Financial Statements
December 31, 2007

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

	<u>Years</u>
Land improvements	5 - 25
Buildings and leasehold improvements	5 - 40
Equipment	5 - 20

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u>2007</u>
Interest costs capitalized	\$ 195,000
Interest costs charged to expense	<u>1,409,352</u>
Total interest incurred	<u><u>\$ 1,604,352</u></u>

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Good Samaritan Hospital
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Notes to Financial Statements
December 31, 2007

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Foregone charges for charity care approximated \$5,240,000 for 2007.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Good Samaritan Hospital
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Notes to Financial Statements
December 31, 2007

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. The payment methodologies are similar to those prescribed by the Medicare program more fully described above.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive DSH payments. The amounts of these additional DSH funds are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. DSH payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized approximately \$3,500,000 of net patient service revenue related to the DSH program for the year ended December 31, 2007. The Hospital recognized receivables from this program approximating \$7,300,000 at December 31, 2007 for various Indiana state fiscal years, which end June 30 each year. During 2007, the Hospital changed its methodology for estimating revenue and receivables related to the Indiana DSH program, resulting in a prior period adjustment, which is more fully described in Note 12.

In May of 2007, the Centers for Medicare and Medicaid issued a final ruling that may change the State of Indiana's ability to operate the DSH program as described above. Upon enactment of this final ruling, Congress issued a one year moratorium on the ruling, which is scheduled to expire in May 2008. In anticipation of the Moratorium expiration, the State of Indiana accelerated payments through state fiscal year 2008. A condition of the accelerated payments may result in a payback of the DSH funds. As such, it is reasonably possible estimates associated with the DSH program could change materially in the near term.

Effective January 1, 2008, the State of Indiana began operating an insurance plan for the benefit of Indiana residents without health insurance. The plan, referred to as the Healthy Indiana Plan (HIP), will be funded through an additional state cigarette tax and with the use of a portion of the DSH funds described above. As such, the level of future DSH payments may also be negatively affected.

Good Samaritan Hospital
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Notes to Financial Statements
December 31, 2007

Approximately 54% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2007. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Indiana state law requires the Hospital to deposit money with any financial institution designated by the state board of finance as depositories for state deposits. The Hospital's funds exceeding the FDIC insurance amount are covered by the Public Deposit Insurance Fund (PDIF). The PDIF insures those state and local public funds are deposited in approved financial institutions in the event of financial institution failures.

At December 31, 2007, approximately \$40,500,000 of the Hospital's bank balances are covered by the PDIF or FDIC.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U. S. Treasury and U. S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

Good Samaritan Hospital
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Notes to Financial Statements
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At December 31, 2007, the Hospital had the following investments and maturities:

Type	Fair Value	Maturities in Years	
		Less than 1	1-5
Mutual funds	\$ 31,904,895	\$ 31,904,895	\$ -
Certificates of deposit	22,749,726	17,082,815	5,666,911
Money market mutual funds	<u>17,566,257</u>	<u>17,566,257</u>	<u>-</u>
	<u>\$ 72,220,878</u>	<u>\$ 66,553,967</u>	<u>\$ 5,666,911</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy provides guidance to invest approximately 70% of its investment portfolio in fixed income securities. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's policy provides guidance to invest in fixed income investments in U. S. Government bonds, bank certificates of deposits, and U. S. Treasury bonds among other government agencies. Such investments are to be insured by the U. S. Government or covered by applicable Federal and State Insurance programs.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy provides investments are to be maintained in insured deposits.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer, however, the PDIF described above mitigates the concentration of credit risk.

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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet as follows:

	<u>2007</u>
Carrying value	
Deposits	\$ 4,004,016
Investments	<u>72,220,878</u>
	<u>\$ 76,224,894</u>
Included in the following balance sheet captions	
Cash and cash equivalents	\$ 26,055,988
Short-term investments	30,389,336
Internally designated	11,754,470
Restricted cash and investments - current	2,358,189
Noncurrent cash and investments	<u>5,666,911</u>
	<u>\$ 76,224,894</u>

Investment Income

Investment income for the year ended December 31 consisted of:

	<u>2007</u>
Interest and dividend income	\$ 3,261,977
Net increase in fair value of investments	<u>1,576,015</u>
	<u>\$ 4,837,992</u>

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Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2007 consisted of:

	2007
Medicare	\$ 5,554,647
Medicaid	1,294,401
Other third-party payers	10,380,194
Patients	8,153,501
	<u>25,382,743</u>
Less allowance for uncollectible accounts	<u>6,100,000</u>
	<u><u>\$ 19,282,743</u></u>

Note 5: Capital Assets

Capital assets activity for the year ended December 31, 2007 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 5,364,700	\$ 335,938	\$ -	\$ (238,000)	\$ 5,462,638
Land improvements	2,808,330	7,885	(12,545)	28,460	2,832,130
Buildings and leasehold improvements	65,987,690	140,987	(698,247)	1,803,140	67,233,570
Equipment	111,353,668	3,207,740	(1,981,537)	6,201,099	118,780,970
Construction in progress	1,010,070	15,125,219	-	(7,794,699)	8,340,590
	<u>186,524,458</u>	<u>18,817,769</u>	<u>(2,692,329)</u>	<u>-</u>	<u>202,649,898</u>
Less accumulated depreciation					
Land improvements	2,390,185	82,167	(5,884)	-	2,466,468
Buildings and leasehold improvements	34,699,732	1,876,982	(593,459)	-	35,983,255
Equipment	76,039,649	6,985,305	(2,092,986)	-	80,931,968
	<u>113,129,566</u>	<u>8,944,454</u>	<u>(2,692,329)</u>	<u>-</u>	<u>119,381,691</u>
Capital assets, net	<u><u>\$ 73,394,892</u></u>	<u><u>\$ 9,873,315</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 83,268,207</u></u>

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Construction in progress includes the construction of a Cancer center, among other projects. Total commitments related to these projects approximate \$1,000,000 at December 31, 2007.

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, the Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$200,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2007 is summarized as follows:

	<u>2007</u>
Balance, beginning of year, as restated	\$ 870,000
Current year claims incurred and changes in estimates for claims incurred in prior years	11,276,775
Claims and expenses paid	<u>(10,823,045)</u>
Balance, end of year	<u>\$ 1,323,730</u>

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Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the year ended December 31, 2007:

	Beginning Balance	2007		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Lease revenue refunding bonds payable, 2002 (a)	\$ 15,183,542	\$ -	\$ 1,168,958	\$14,014,584	\$ 640,000
Lease revenue bonds payable, 2004 (b)	16,600,712	-	702,871	15,897,841	685,000
Capital lease obligations	<u>6,173,967</u>	<u>279,883</u>	<u>1,339,276</u>	<u>5,114,574</u>	<u>1,409,756</u>
Total long-term debt	<u>\$ 37,958,221</u>	<u>\$ 279,883</u>	<u>\$ 3,211,105</u>	<u>\$35,026,999</u>	<u>\$ 2,734,756</u>

- (a) The lease revenue refunding bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of \$21,270,000 dated September 1, 2002, which bear interest at 1.40% to 5.25%. The Bonds are payable in semi-annual installments through July 1, 2017. The Hospital is required to make semi-annual deposits to the debt service fund held by the trustee. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The indenture agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and capital acquisitions in the balance sheet.

Upon issuance and delivery of the Bonds, the Hospital defeased its outstanding 1993 bonds in the total principal amount of \$18,675,000. Proceeds from the Bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt since the Hospital was legally released from its obligation on the 1993 bonds at the time of the defeasance. Accordingly, the 1993 bonds, aggregating \$14,070,000 at December 31, 2007, remain outstanding, but are excluded from the Hospital's balance sheet.

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The debt service requirements as of December 31, 2007, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2008	\$ 947,693	\$ 640,000	\$ 307,693
2009	1,900,236	1,330,000	570,236
2010	1,897,487	1,375,000	522,487
2011	1,895,114	1,425,000	470,114
2012	1,899,124	1,485,000	414,124
2013 - 2017	<u>8,832,301</u>	<u>7,759,584</u>	<u>1,072,717</u>
	<u>\$ 17,371,955</u>	<u>\$ 14,014,584</u>	<u>\$ 3,357,371</u>

- (b) The lease revenue bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of \$17,210,000 dated February 1, 2004, which bear interest at 2.00% to 5.00%. The Bonds are payable in semi-annual installments through January 15, 2024. The Hospital is required to make semi-annual deposits to the debt service fund held by the trustee. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The indenture agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and capital acquisitions in the balance sheet.

The debt service requirements as of December 31, 2007, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2008	\$ 1,370,583	\$ 685,000	\$ 685,583
2009	1,377,827	710,000	667,827
2010	1,372,783	725,000	647,783
2011	1,380,340	755,000	625,340
2012	1,370,246	770,000	600,246
2013 - 2017	<u>16,052,593</u>	<u>12,252,841</u>	<u>3,799,752</u>
	<u>\$ 22,924,372</u>	<u>\$ 15,897,841</u>	<u>\$ 7,026,531</u>

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Capital Lease Obligations

The Hospital is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2007 totaled \$11,015,697, net of accumulated depreciation of \$2,728,253. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.20% to 8.25% together with the present value of the future minimum lease payments as of December 31, 2007:

Year Ending December 31,

2008	\$ 1,607,292
2009	1,510,744
2010	1,120,531
2011	947,757
2012	365,435
Total minimum lease payments	<u>5,551,759</u>
Less amount representing interest	<u>437,185</u>
Present value of future minimum lease payments	<u><u>\$ 5,114,574</u></u>

Note 9: Restricted and Designated Net Assets

At December 31, 2007, restricted expendable net assets were available for the following purposes:

	<u>2007</u>
Debt service	<u><u>\$ 2,358,189</u></u>

At December 31, 2007, approximately \$11,750,000 of unrestricted net assets has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may at its discretion, later use these net assets for other purposes.

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Note 10: Pension Plan

The Hospital contributes to a defined-contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The current contributions rate is 7% of the first \$9,999 and 10% thereafter of annual covered payroll for employees hired prior to January 1, 2002. Employees hired January 1, 2002 or later will receive 7% of annual earnings (annual earnings exclude overtime and bonus payments). Employer contributions to the plan were \$3,834,232.

Note 11: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital currently has certain cases outstanding and management believes that the financial statements will not be materially affected, in the event of an adverse outcome. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 12: Restatement of Prior Year's Financial Statements

Beginning net assets have been restated and increased for an error of \$7,870,000, applicable to 2006 and prior years, in the computation of amounts related to amounts due from the Indiana Medicaid Disproportionate Share Hospital program. The restatement increased previously reported 2006 change in net assets by approximately \$1,000,000.

In addition, beginning net assets have been restated and decreased for an error of \$870,000 applicable to 2006 and prior years, related to the computation of the self-insured portion of incurred but not reported health insurance claims. The restatement did not have a material effect on the 2006 change in net assets.